ANNUAL USE OF CAPITAL SURVEY - 2009

NAME OF INSTITUTION
(Include Holding Company Where Applicable)

Citizens & Northern Corporation

Person to be contacted regarding this report:	Mark Hughes	RSSD: (For Bank Holding Companies)	1143623
CPP Funds Received:	$26,440,000	Holding Company Docket Number: (For Thrift Holding Companies)	
CPP Funds Repaid to Date:	$0	FDIC Certificate Number: (For Depository Institutions)	7799
Date Funded (first funding):	1/16/2009	City:	Wellsboro
Date Repaid[1]:		State:	Pennsylvania

[1]If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP). To answer that question, Treasury is seeking responses that describe generally how the CPP investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP investment was deployed or how many CPP dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP funds were outstanding).

☒	Increase lending or reduce lending less than otherwise would have occurred.	In 2009, we experienced significant losses from investment securities. Without the infusion of TARP capital, it is likely that we would have been forced to tighten our credit standards, in order to maintain our well-capitalized status for regulatory purposes.

☒	To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).	The additional capital helped support all of our lending. Our loan portfolio totals in excess of $720 million, and at 12/31/09 included approximately 55% consumer-purpose loans (residential mortgage, home equity and other consumer loans) and approximately 45% commercial-purpose loans.
☒	Increase securities purchased (ABS, MBS, etc.).	On a consolidated basis, purchases of available-for-sale securities exceeded proceeds from maturities and sales by approximately $21.5 million in 2009. The largest categories of increase were debt issuances by US Government Agencies and state and political subdivisions.
☐	Make other investments	
☐	Increase reserves for non-performing assets	

☒	Reduce borrowings	We reduced total outstanding borrowings by approximately $50 million as of 12/31/09 as compared to 12/31/08. The reduced level of borrowings helped us maintain a higher leveraged capital ratio than we otherwise would have maintained.
☐	Increase charge-offs	
☐	Purchase another financial institution or purchase assets from another financial institution	
☒	Held as non-leveraged increase to total capital	Our primary motivation for issuing preferred stock under the CPP was to increase capital as "insurance" against the possibility of losses from investments in pooled trust-preferred securities, bank stocks or other securities or loans.

What actions were you able to avoid because of the capital infusion of CPP funds?

The capital infusion of CPP funds allowed us to avoid jeopardizing our well-capitalized position for regulatory purposes throughout 2009, despite incurring heavy losses from investments. In January 2009, when we issued preferred stock under the CPP, the capital markets were reportedly "frozen," and it would have been difficult, if not impossible, for Citizens & Northern to raise a substantial amount of equity capital. By raising the CPP capital, we were able to continue to offer lending and all of our other financial services throughout 2009, without tightening underwriting standards or making other changes that may have been detrimental to our customers. Further, the CPP funds provided temporary capital that allowed us to absorb losses for the 1st 9 months of 2009 until we
were able to raise capital in the 4th quarter.
In January 2009, our primary motivation for issuing preferred stock under the CPP was to increase capital as "insurance" against the possibility of losses from investments in pooled trust-preferred securities, bank stocks or other securities or loans. In hindsight, we did not experience significant credit losses from our loan portfolio, as our consolidated provision for loan losses for the year of $680,000 was lower than the provision of $909,000 in 2008, and net charge-offs in 2009 of $272,000 were only 0.04% of average loans outstanding. However, we experienced very significant losses on our investment portfolio, primarily from investments in pooled trust-preferred securities issued mainly by banking companies. Our pre-tax impairment losses on securities totaled $85.4 million in 2009, including $73.7 million from pooled trust-preferred securities. As a result of the securities losses, we reported a consolidated annual net loss for 2009 of $39.3 million, including a net loss for the 1st 9 months of $44.0 million.

The net loss, as described above, caused our capital ratios to decline over the 1st 9 months of 2009, hitting a low point at the end of the 3rd quarter. Using our actual 9/30/09 values, excluding the CPP funds, we estimate our consolidated total risk-based capital ratio would have been 10.20%, just higher than the 10% minimum level for banks to be considered well-capitalized. We estimate the total risk-based capital ratio for our principal banking subsidiary, Citizens & Northern Bank, would have fallen to less than 10%, to the "adequately capitalized" category. If Citizens & Northern Bank would have been less than well-capitalized, our FDIC expenses would have increased, and we would have been prohibited from using brokered deposits or taking certain other actions without regulatory approval. Further, if Citizens & Northern Bank had been less than well-capitalized, we may not have been successful in raising equity capital in the 4th quarter 2009.

What actions were you able to take that you may not have taken without the capital infusion of CPP funds?

The infusion early in 2009 of CPP funds provided temporary capital, which allowed us the opportunity to absorb the securities losses while waiting for the opportunity to raise more permanent capital, later in the year. By mid-2009, activity in the capital markets began to increase. In the 4th quarter 2009, Citizens & Northern issued common stock in a public offering, raising approximately $21.4 million, net of offering costs. After the common stock offering, we are in a much stronger financial position, and hope to repay some or all of the CPP funds as early as 2010.

Please describe any other actions that you were able to undertake with the capital infusion of CPP funds.

According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 1505-0222. The time required to complete this information collection is estimated to average 80 hours per response.